

**What's new about the deduction?**

Since 1986, taxpayers were only allowed to deduct state and local income tax payments on their federal income tax return. A new law passed by Congress lets people choose to deduct either their state and local sales taxes or their state and local income taxes.

**Is the deduction permanent?**

No. The deduction is set to expire after 2005. However, legislation has been introduced in the U.S. Senate to make the deductions permanent.

**Can I get a deduction for the state sales tax and state income tax?**

No. You must choose one or the other.

**I plan on using the standard deduction on my federal return. Can I still deduct my sales taxes?**

No. The law only allows people who itemize deductions on their federal return to deduct sales tax payments. According to the Internal Revenue Service (IRS), 25% of the taxpayers in Tennessee itemized deductions on their federal returns last year. However, this number is expected to increase as a result of the new sales tax deduction.

**I plan on itemizing. How do I figure out how much sales tax I can deduct?**

There are two methods. If you kept receipts of your purchases you can deduct the actual state and local sales taxes you paid during the year. The other way is to use optional sales tax tables provided by the IRS.

**How do I use the optional tables?**

For the state portion of the sales tax, the IRS provides tables providing the deduction amount based on your state of residence, income and the number of exemptions you plan to claim on your tax return. The Optional State Sales Tax Tables are available at <http://www.irs.gov/pub/irs-pdf/p600.pdf>. In Tennessee the deduction ranges from \$506 for an individual making less than \$20,000 to \$2,446 for someone making more than \$200,000 and who claims more than five exemptions.

To calculate the local portion of sales taxes you can deduct, the IRS provides a formula that you must use. The amount of local tax allowed for deduct depends on your state sales tax deduction and the rate of local tax in your jurisdiction.

**I didn't keep all my receipts from last year. Is there a way I can I still itemize my sales taxes?**

Probably not. While there may be other ways to estimate your sales tax payments, such as through credit card statements, the only methods laid out in the IRS regulations for calculating the deduction are sales receipts or its optional tax table.

"Anything outside of that you are taking the chance it would not be accepted under audit," IRS spokesman Dan Boone said.

### **What about big purchases, like a car or a refrigerator?**

The new rules allow taxpayers to deduct sales taxes for specific big-ticket items if they are using actual expenses. These include:

- Motor vehicles, including a car, motorcycle, motor home, recreational vehicle, sport utility vehicle, truck, van and off-road vehicle. Sales taxes on automobile lease payments also qualify.
- Aircraft.
- Boats.
- A home and home-building materials.

Not covered are other large purchases, such as a refrigerator, other home appliances or a big-screen TV. In addition, the law only allows deductions up to the general sales tax rate — meaning additional taxes some states have on motor vehicle purchases can't be deducted.

### **What about sales tax I paid on purchases I made in other states?**

Taxes paid on purchases made in other states or localities are treated the same as those made in your state, regardless of the varying tax rates.

### **I lived in more than one state last year. Does that change how I calculate my sales tax deduction?**

Yes, if you are using the optional sales tax tables. The rules require you to prorate your deduction based on the number of days that you lived in each state.

### **Where can I get more information?**

Visit the IRS Web site at [www.irs.gov](http://www.irs.gov). The Optional State Sales Tax Tables are available at <http://www.irs.gov/pub/irs-pdf/p600.pdf>.

Sources: *The Tennessean*, Jan. 25, 2005, and the Internal Revenue Service